

Report of Independent Auditor

**THE CHARTER SCHOOL OF WILMINGTON, INC.**

(A Component Unit of the State of Delaware)

Wilmington, Delaware

Years Ended June 30, 2006 and 2005

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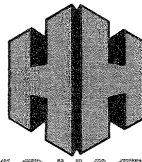
**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
(A Component Unit of the State of Delaware)

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**HAGGERTY & HAGGERTY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS  
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### **Report of Independent Auditor**

To the School Board Members  
**The Charter School of Wilmington, Inc.**  
Wilmington, Delaware

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The Charter School of Wilmington, Inc., Wilmington, Delaware (a component unit of the State of Delaware) as of and for the years ended June 30, 2006 and 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of The Charter School of Wilmington, Inc. as of June 30, 2006 and 2005, and the respective changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2006 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 7 and page 24, respectively, are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise The Charter School of Wilmington, Inc.'s basic financial statements. The additional information on pages 25 and 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information on pages 25 and 26 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of The School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.



Certified Public Accountants

September 25, 2006  
Wilmington, Delaware

**Management's Discussion  
and Analysis Section**

**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED  
Year Ended June 30, 2006

Our discussion and analysis of the School's financial performance provides an overview of its financial activities for the year ended June 30, 2006. Please read it in conjunction with the Report of Independent Auditor on pages 1 and 2, and the School's financial statements, which begin on page 8.

**FINANCIAL HIGHLIGHTS**

The net assets of the School increased by \$219,814 or 8%. Program revenues, which include federal aid and contributions, accounted for \$78,266 or 1% of total revenues, and general revenues accounted for \$7,726,516 or 99% of total revenues. The general fund reported a positive fund balance of \$2,916,020.

**USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

**REPORTING THE SCHOOL AS A WHOLE**

***The Statement of Net Assets and Statement of Activities***

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as student enrollment growth and facility conditions in arriving at a conclusion regarding the overall health of the School.

**REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS**

***Fund Financial Statements***

Our analysis of the School's major funds and fund financial statements begins on page 11 and provides detailed information about the most significant funds-not the School as a whole. Certain funds are required to be established by State statute, while many other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions. The School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

***Governmental Funds***

Most of the School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or less financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

**REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS** (continued)

**Fiduciary Funds**

The School is fiduciary for its student activity assets that, due to a fiduciary arrangement, can only be used for the student activities. All of the School's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 15. These activities are excluded from the School's other financial statements since these assets cannot be utilized by the School to finance its operations.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$2,973,477 at the close of the fiscal year. The largest portion of the School's net assets is cash and equivalents. The School uses capital assets to provide services but these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2006, the School had incurred no debt related to the acquisition of capital assets.

A summarized comparative analysis of fiscal year 2006 to 2005 follows:

<b>Table 1</b>		
<b>Net Assets</b>		
	<u>Governmental</u>	<u>Activities</u>
	<u>2006</u>	<u>2005</u>
<b>Current and other assets</b>		
Current and other assets	\$4,206,794	\$3,739,382
Capital assets, net of depreciation	132,169	124,537
<b>Total assets</b>	<u>4,338,963</u>	<u>3,863,919</u>
<b>Liabilities</b>		
Current liabilities	1,290,774	1,064,790
Long-term liabilities	74,712	45,466
<b>Total liabilities</b>	<u>1,365,486</u>	<u>1,110,256</u>
<b>Net assets</b>		
Invested in capital assets, net of debt	132,169	124,537
Restricted for renovation of Science Labs	33,249	37,095
Unrestricted	<u>2,808,059</u>	<u>2,592,031</u>
<b>Total net assets</b>	<u>\$2,973,477</u>	<u>\$2,753,663</u>

The unrestricted net assets of \$2,808,059 may be used to meet future needs of the School's activities.

The School is pleased to report positive balances in net assets, both for the government as a whole, and as well as its separate governmental type activities.

The following (Table 2) reflects the School's revenues by funding sources and the expenses by functions, which indicates how the funding received was used.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

**Table 2**  
**Change in Net Assets**

	Governmental Activities	
	2006	2005
<b>Revenues</b>		
Charges to school districts	\$2,562,410	\$2,312,494
State aid not restricted for specific purposes	4,978,519	4,602,336
Earnings on cash and equivalents	162,207	89,364
Miscellaneous revenues	23,380	2,532
<b>Total general revenues</b>	<b>\$7,726,516</b>	<b>7,006,726</b>
Program revenues:		
Federal aid	55,652	38,764
Contributions	22,614	12,978
<b>Total revenues</b>	<b>7,804,782</b>	<b>7,058,468</b>
<b>Expenses</b>		
Instructional services	6,479,947	6,025,693
Supporting services:		
Operation and maintenance of facilities	268,758	304,737
Transportation	803,719	757,257
Depreciation-Unallocated	32,544	33,956
<b>Total expenses</b>	<b>7,584,968</b>	<b>7,121,643</b>
<b>Change in net assets</b>	<b>\$ 219,814</b>	<b>\$ (63,175)</b>

**Governmental Activities**

Following a slight decrease in net assets during fiscal year 2005, there was an 8% increase in net assets during fiscal year 2006 and the School has a healthy fund balance going forward into fiscal year 2007.

The Statement of Activities shows the cost of program services and contributions received from the private sector and federal grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues which primarily include charges to School Districts and State entitlements must support the net cost of the School's programs.

	Services			
	2006		2005	
	Total Cost	Net Cost	Total Cost	Net Cost
<b>Governmental activities</b>				
Instructional services	\$6,479,947	\$6,401,681	\$6,025,693	\$5,973,951
Supporting services:				
Operation and maintenance of facilities	268,758	268,758	304,737	304,737
Transportation	803,719	803,719	757,257	757,257
Depreciation-Unallocated	32,544	32,544	33,956	33,956
<b>Total expenses</b>	<b>\$7,584,968</b>	<b>\$7,506,702</b>	<b>\$7,121,643</b>	<b>\$7,069,901</b>

The heavy reliance on general revenues to support governmental activities is indicated by relatively small amount of federal funding and other revenues that were received by the School during the fiscal year.



### THE SCHOOL'S FUNDS ANALYSIS

The School's governmental funds (as presented on the balance sheet on page 11) reported a combined fund balance of \$2,916,020, which is more than last year's total of \$2,674,592. The increase in fund balance was \$241,428.

#### General Fund

The School's general fund increase in fund balance is primarily due to the 10.57% increase in total revenues, which increased significantly more than in the prior two fiscal years. The following highlights the increases in School revenues:

- Charges to school districts' increase is due to the geographic mix of the student population, that is the district from which the student originates.
- State aid increase is due to the level of experience, qualifications (nationally certified teachers), and tenure of the School's personnel.
- Federal aid fluctuates based on student population needs and availability of federal funding.
- Earnings on cash and equivalents are part of the investment pool maintained and managed by the State. The reason for the increase is due to increases in interest rates during the fiscal year.
- Other revenues consist of private contributions and other one-time funding to the School. This type of funding is usually unpredictable.

The tables that follow will assist in illustrating the general fund's financial activities.

	Amounts		Percentage (%) Change
	2006	2005	
<b>Revenues</b>			
Charges to school districts	\$2,562,410	\$2,312,494	10.81
State aid	4,978,519	4,602,336	8.17
Federal aid	55,652	38,764	43.57
Earnings on cash and equivalents	162,207	89,364	81.51
Other revenues	45,994	15,510	196.54
<b>Total revenues</b>	<u>\$7,804,782</u>	<u>\$7,058,468</u>	<u>10.57</u>

The largest portion of general fund expenditures is for salaries and employment costs, since the School is service-oriented and as such labor intensive.

	Amounts		Percentage (%) Change
	2006	2005	
<b>Expenditures</b>			
Salaries	\$4,271,426	\$3,964,837	7.73
Employment costs	1,448,049	1,337,241	8.23
All Other Costs	1,843,879	1,806,185	2.09
<b>Total expenditures</b>	<u>\$7,563,354</u>	<u>\$7,108,263</u>	<u>6.40</u>

### GENERAL FUND BUDGET INFORMATION

The School's budget is presented on the modified accrual basis of accounting. Monthly financial reports are provided to the President and the Finance Committee to assist the Board of Directors in monitoring the budget. The most significant budgeted fund is the General Fund. The School may and does amend revenue and expenditure estimates periodically to reflect changing conditions. The September 30 unit count is a pivotal event in shaping the ultimate revenue estimates. The number of students enrolled and their district of origin largely determine the state and local funding.

**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED  
Year Ended June 30, 2006

**CAPITAL ASSETS**

The School has \$132,169 invested in capital assets, net of depreciation, all of which is attributed to its governmental activities. The School acquired \$40,176 in capital assets and depreciation expense was \$32,544 for fiscal year 2006. Also, during fiscal year 2006 the School scrapped obsolete, fully depreciated computer equipment. Detailed information regarding the capital assets activity is included in note 3 to the financial statements.

**FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS**

The School plans to continue to operate a college preparatory public high school focusing on the study of math and science. After operating near a "break even" point during fiscal years 2004 and 2005, the School experienced a significant increase in fund balance during fiscal year 2006. While last year's increased revenues were a welcomed change, the School kept the increase in total spending to about 6%. The School must continue to keep total costs at a moderate rate of increase each year in order to continue to sustain itself over the long-term.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the funding it receives. If you have questions about this report or need additional information, contact us at (302) 651-2727.

## **Basic Financial Statements Section**

**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
**STATEMENTS OF NET ASSETS**  
June 30, 2006 and 2005

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 4,206,794	\$ 3,703,848
Due from other governments	<u>...</u>	<u>35,534</u>
<b>Total current assets</b>	<u>4,206,794</u>	<u>3,739,382</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, net of depreciation	<u>132,169</u>	<u>124,537</u>
<b>TOTAL ASSETS</b>	<u>4,338,963</u>	<u>3,863,919</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	9,890	...
Accrued salaries and related costs	<u>1,280,884</u>	<u>1,064,790</u>
<b>Total current liabilities</b>	<u>1,290,774</u>	<u>1,064,790</u>
<b>NONCURRENT LIABILITIES</b>		
Compensated absences liability	<u>74,712</u>	<u>45,466</u>
<b>TOTAL LIABILITIES</b>	<u>1,365,486</u>	<u>1,110,256</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	132,169	124,537
Restricted for renovation of Science Labs	33,249	37,095
Unrestricted	<u>2,808,059</u>	<u>2,592,031</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 2,973,477</u>	<u>\$ 2,753,663</u>

The accompanying notes are an integral  
part of the basic financial statements

**THE CHARTER SCHOOL OF WILMINGTON, INC.**

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ 6,479,947	\$ ...	\$ 78,266	\$ ...	\$(6,401,681)
Supporting services:					
Operation and maintenance of facilities	268,758	...	...	...	(268,758)
Transportation	803,719	...	...	...	(803,719)
Depreciation-unallocated	32,544	...	...	...	(32,544)
<b>Total Charter School</b>	<b>\$ 7,584,968</b>	<b>\$ ...</b>	<b>\$ 78,266</b>	<b>\$ ...</b>	<b>(7,506,702)</b>

**GENERAL REVENUES**

Charges to school districts	2,562,410
State aid not restricted to specific purposes	4,978,519
Earnings on cash and equivalents	162,207
Miscellaneous	23,380
<b>Total general revenues</b>	<b>7,726,516</b>

**CHANGE IN NET ASSETS**

219,814

**NET ASSETS**

Beginning of year	2,753,663
End of year	<u>\$ 2,973,477</u>

The accompanying notes are an integral part of the basic financial statements

**THE CHARTER SCHOOL OF WILMINGTON, INC.**

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ 6,025,693	\$ ...	\$ 51,742	\$ ...	\$(5,973,951)
Supporting services:					
Operation and maintenance of facilities	304,737	...	...	...	(304,737)
Transportation	757,257	...	...	...	(757,257)
Depreciation-unallocated	33,956	...	...	...	(33,956)
<b>Total Charter School</b>	<b>\$ 7,121,643</b>	<b>\$ ...</b>	<b>\$ 51,742</b>	<b>\$ ...</b>	<b>(7,069,901)</b>
<b>GENERAL REVENUES</b>					
Charges to school districts					2,312,494
State aid not restricted to specific purposes					4,602,336
Earnings on cash and equivalents					89,364
Miscellaneous					2,532
<b>Total general revenues</b>					<b>7,006,726</b>
<b>CHANGE IN NET ASSETS (LIABILITIES)</b>					<b>(63,175)</b>
<b>NET ASSETS</b>					
Beginning of year					2,816,838
End of year					<u>\$ 2,753,663</u>

The accompanying notes are an integral part of the basic financial statements

**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
BALANCE SHEETS-GOVERNMENTAL FUNDS  
June 30, 2006 and 2005

	<u>Governmental Funds</u>	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and equivalents	\$ 4,206,794	\$ 3,703,848
Due from other governments	<u>          ...</u>	<u>          35,534</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,206,794</u>	<u>\$ 3,739,382</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 9,890	\$ ...
Accrued salaries and related costs	<u>1,280,884</u>	<u>1,064,790</u>
<b>Total liabilities</b>	<u>1,290,774</u>	<u>1,064,790</u>
<b>FUND BALANCES</b>		
Reserved for encumbrances	33,249	37,095
Reserved for Renovation of Science Labs	<u>2,882,771</u>	<u>2,637,497</u>
Unreserved	<u>2,916,020</u>	<u>2,674,592</u>
<b>Total fund balances</b>	<u>2,916,020</u>	<u>2,674,592</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 4,206,794</u>	<u>\$ 3,739,382</u>

The accompanying notes are an integral  
part of the basic financial statements

**THE CHARTER SCHOOL OF WILMINGTON, INC.**

RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS

TO THE STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

	Governmental Funds	
	2006	2005
Amounts reported for governmental activities in the statement of net assets are different because:		
<b>Total fund balances-governmental funds</b>	<b>\$ 2,916,020</b>	<b>\$ 2,674,592</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$303,018 for 2006 and \$341,626 for 2005 and the related accumulated depreciation is \$170,849 for 2006 and \$217,089 for 2005.	132,169	124,537
Compensated absences are not due and payable for the period reported and therefore are not reflected in the funds.	<u>(74,712)</u>	<u>(45,466)</u>
<b>Total net assets-governmental activities</b>	<b><u>\$ 2,973,477</u></b>	<b><u>\$ 2,753,663</u></b>

The accompanying notes are an integral part of the basic financial statements



**THE CHARTER SCHOOL OF WILMINGTON, INC.**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES-GOVERNMENTAL FUNDS  
Years Ended June 30, 2006 and 2005

	Governmental Funds	
	2006	2005
<b>REVENUES</b>		
Charges to school districts	\$ 2,562,410	\$ 2,312,494
State aid	4,978,519	4,602,336
Federal aid	55,652	38,764
Earnings on cash and equivalents	162,207	89,364
Contributions	22,614	12,978
Miscellaneous	23,380	2,532
<b>Total revenues</b>	<u>7,804,782</u>	<u>7,058,468</u>
<b>EXPENDITURES</b>		
Current:		
Instructional services	6,448,741	6,034,191
Supporting services:		
Operation and maintenance of facilities	268,758	304,737
Transportation	803,719	757,257
Capital outlay	42,136	12,078
<b>Total expenditures</b>	<u>7,563,354</u>	<u>7,108,263</u>
<b>NET CHANGE IN FUND BALANCES</b>	241,428	(49,795)
<b>FUND BALANCES</b>		
Beginning of year	<u>2,674,592</u>	<u>2,724,387</u>
End of year	<u>\$ 2,916,020</u>	<u>\$ 2,674,592</u>

The accompanying notes are an integral  
part of the basic financial statements

**THE CHARTER SCHOOL OF WILMINGTON, INC.**

## RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND

CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2006 and 2005

		<u>Governmental Funds</u>	
		<u>2006</u>	<u>2005</u>
Amounts reported for governmental activities in the statement of activities are different because:			
<b>Net change in fund balances-total governmental funds</b>		\$ 241,428	\$ (49,795)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,500 are capitalized and the cost is allocated over the estimated useful lives of the capital assets and reported as depreciation expense. This is the amount by which depreciation expense was below or exceeded capital outlay for the periods reported.			
		<u>2006</u>	<u>2005</u>
Capital Outlay	\$ 40,176	\$ ...	
Depreciation Expense	<u>(32,544)</u>	<u>(33,956)</u>	7,632 (33,956)
In the statement of activities, certain operating expenses such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation payable increased by \$29,246 for 2006 and decreased by \$20,576 for 2005.			
		<u>(29,246)</u>	<u>20,576</u>
<b>Change in net assets-governmental activities</b>		\$ 219,814	\$ (63,175)

The accompanying notes are an integral part of the basic financial statements

**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
STATEMENTS OF FIDUCIARY NET ASSETS-AGENCY FUND  
June 30, 2006 and 2005

	<u>Student Activities Fund</u>	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and equivalents	\$ <u>340,592</u>	\$ <u>225,620</u>
<b>LIABILITIES</b>		
Due to student groups	\$ 105,592	\$ 85,981
Due to parents association	146,753	95,003
Due to other Organizations	<u>88,247</u>	<u>44,636</u>
<b>TOTAL LIABILITIES</b>	\$ <u>340,592</u>	\$ <u>225,620</u>

The accompanying notes are an integral  
part of the basic financial statements

**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of The Charter School of Wilmington, Inc. (the "School") have been prepared in conformity with U.S. generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the School are described below.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State's operations. The School has no component units for which it is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report the financial information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific program. *Program revenues* include charges to students or other third parties who purchase or directly benefit from goods and services provided, and grants and contributions that are restricted to meeting the operating or capital requirements of a particular function.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The **governmental fund financial statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, and postemployment healthcare benefits, are recorded only when payment is due.

Charges to school districts and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental fund:

- The **general fund** is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Additionally, the School reports the following fund type:

- The **student activities agency fund** (a fiduciary fund) accounts for assets held on behalf of student groups and other related organizations.

Amounts reported as program revenues include 1) charges to students for special fees, material, supplies, or services, provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Encumbrances

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. At June 30, 2006 and 2005, the School had no outstanding encumbrances.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Use of Estimates

The preparation of basic financial statements in conformance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgets

The budget for the general fund is adopted on the modified accrual basis of accounting.

Cash and Equivalents

The School's cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion). At June 30, 2006 and 2005, the School had no such activity.

Advances between funds, as reported in the fund financial statements, when present are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets

Capital assets, which include leasehold improvements, furniture and fixtures, and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with initial, individual costs of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extends the life of an asset is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Leasehold improvements, furniture and fixtures, and equipment of the School are depreciated using the straight-line method over their estimated useful lives ranging between 5 to 10 years.

**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Compensated Absences Liability

Vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability is reported in the governmental funds only if the amounts have matured, for example, as a result of employee resignations and retirements.

**Vacation** - Twelve month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation time upon termination, retirement, etc. at the current rate of pay.

**Sick Leave** - Sick leave allowances are as follows: 10 days for 10-month employees, 11 days for 11-month employees, and 12 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit without limit. Compensation for accumulated sick days is received when employees (a) qualify and apply for State pension and is paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days, or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 90 days.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources.

**NOTE 2 - CASH AND EQUIVALENTS**

At June 30, 2006 and 2005, the School has cash and equivalents of \$4,206,794 and \$3,703,848, respectively. Cash and equivalents are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The deposits held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School; however the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the financial stability of the State.

The petty cash fund and student activity fund are in the custody of School officials. At June 30, 2006 and 2005, these deposits are held by one financial institution and are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits totaling \$352,441 and \$234,768 held by the financial institution were in excess of FDIC limits in the amount of \$252,441 and \$134,768, respectively, and therefore, are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it.

**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the fiscal years ended June 30 follows:

Description	June 30, 2006			
	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, being depreciated:				
Leasehold improvements	\$ 219,946	\$ 40,176	\$ ...	\$ 260,122
Furniture and fixtures	8,272	...	...	8,272
Equipment	113,408	...	78,784	34,624
Totals	341,626	40,176	78,784	303,018
Less accumulated depreciation:				
Buildings and improvements	104,341	25,343	...	129,684
Furniture and fixtures	7,996	276	...	8,272
Equipment	104,752	6,925	78,784	32,893
Totals	217,089	32,544	78,784	170,849
Total capital assets, being depreciated, net	\$ 124,537	\$ 7,632	\$ ...	\$ 132,169

Description	June 30, 2005			
	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, being depreciated:				
Leasehold improvements	\$ 219,946	\$ ...	\$ ...	\$ 219,946
Furniture and fixtures	8,272	...	...	8,272
Equipment	113,408	...	...	113,408
Totals	341,626	...	...	341,626
Less accumulated depreciation:				
Buildings and improvements	82,347	21,994	...	104,341
Furniture and fixtures	6,342	1,654	...	7,996
Equipment	94,444	10,308	...	104,752
Totals	183,133	33,956	...	217,089
Total capital assets, being depreciated, net	\$ 158,493	\$ (33,956)	\$ ...	\$ 124,537

**NOTE 4 - LONG-TERM DEBT OBLIGATIONS**

The following is a summary of changes in long-term obligations for the year ended June 30, 2006:

Description	Long-Term Obligations				Due Within One Year
	Beginning Balance	Additions	Deletions	Ending Balance	
Governmental activity:					
Compensated absences	\$ 45,466	\$ 29,246	\$ ...	\$ 74,712	\$ ...

Compensated absences for governmental activities are generally liquidated by the general fund.



**NOTE 5 - PENSION PLAN**

School employees are considered State employees and are covered under the State's pension program. The State contributed 7.44% for 2006 and 2005 of the State share of the employees' salary. The School contributed the same percentages on the local share of the salary. The employees contribute 3.00% of salary in excess of \$6,000 per share up to social security maximum and 3.00% for any salary above social security maximum. Total pension costs of \$553,779 for 2006 and \$464,488 for 2005 (State share) and \$55,633 for 2006 and \$147,545 for 2005 (local share) are included in the financial statements. Certain significant plan provisions follow:

- Early retirement:
  - a. 15 years service-age 55 (reduced by 0.2%, each month under age 60)
  - b. 25 years service-any age (reduced by 0.2%, each month short of 30 years)
- Service retirement:
  - a. 15 years service-age 60
  - b. 30 years service-any age
  - c. 5 years service-age 62
- Disability retirement:
  - a. 5 years service and proof of disability
- Vested pension-An employee can vest pension rights after five consecutive years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) *Comprehensive Annual Report*. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904 or by calling 1-800-722-7300.

**NOTE 6 - FACILITY ARRANGEMENT**

The School occupies space (located at 100 North DuPont Street in Wilmington, Delaware) owned and maintained by the Red Clay School District. The informal arrangement calls for the School to share in certain occupancy costs which include electricity, heating, water, security, etc. Also, included as part of the arrangement is cost sharing regarding athletics, pool and cafeteria services.

**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 7 - LEASING ARRANGEMENTS**

The School leases certain copier equipment under operating leasing arrangements expiring at various dates through November, 2009. At June 30, 2006, the minimum future rental payments required under non-cancelable leasing arrangements having remaining terms in excess of one year for the remaining years in the aggregate are:

Fiscal Years Ending June 30	Amount
2007	\$ 34,553
2008	33,289
2009	6,540
2010	<u>2,725</u>
Minimum future rental payments required	<u>\$ 77,107</u>

Total rental expense is \$34,553 and \$30,995 for the fiscal years ended June 30, 2006 and 2005, respectively.

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants Activity

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the General Fund. The School's administration believes such disallowance, if any, would be immaterial.

Leasing Arrangements

As described in other notes, the School is committed to certain leasing and facility arrangements.

**NOTE 9 - RECLASSIFICATIONS**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

## **Required Supplemental Information (RSI) Section**

**THE CHARTER SCHOOL OF WILMINGTON, INC.****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND  
Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Charges to school districts	\$ 2,490,000	\$ 2,700,000	\$ 2,562,410	\$ (137,590)
State aid	4,765,000	4,780,000	4,978,519	198,519
Federal aid	34,300	34,300	55,652	21,352
Earnings on cash and equivalents	...	...	162,207	162,207
Contributions	...	...	22,614	22,614
Miscellaneous	60,000	60,000	23,380	(36,620)
<b>Total revenues</b>	<b>7,349,300</b>	<b>7,574,300</b>	<b>7,804,782</b>	<b>230,482</b>
<b>EXPENDITURES</b>				
Current:				
Salaries	4,212,551	4,328,370	4,271,426	56,944
Employment costs	1,388,049	1,431,630	1,448,049	(16,419)
Travel	2,000	2,000	21,574	(19,574)
Contracted services	461,100	464,000	150,191	313,809
Communications	20,000	20,000	24,650	(4,650)
Insurance	19,000	19,000	28,870	(9,870)
Transportation-buses	620,000	620,000	803,719	(183,719)
Land/Building/Facilities	210,000	170,000	220,261	(50,261)
Repairs and maintenance	45,000	45,000	19,627	25,373
Other contractual services	...	...	142,947	(142,947)
Supplies and materials	201,100	340,000	227,773	112,227
Operating supplies	...	...	117,788	(117,788)
Computer/Word Processing/Software	...	...	44,343	(44,343)
Capital outlay	170,500	100,000	42,136	57,864
<b>Total expenditures</b>	<b>7,349,300</b>	<b>7,540,000</b>	<b>7,563,354</b>	<b>(23,354)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>...</b>	<b>34,300</b>	<b>241,428</b>	<b>207,128</b>
<b>FUND BALANCES</b>				
Beginning of year	...	...	2,674,592	2,674,592
End of year	\$ ...	\$ 34,300	\$ 2,916,020	\$ 2,881,720

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The School annually adopts a budget for the general fund financial statements. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. Budgets for the governmental funds are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule for the general fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Material Violations

There were no material violations of the annual appropriated budget for the general fund for fiscal year 2006.

See Accompanying Report of Independent Auditor

## **Additional Information Section**

THE CHARTER SCHOOL OF WILMINGTON, INC.  
BALANCE SHEETS-GENERAL FUND  
June 30, 2006 and 2005

	2006				2005			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
<b>ASSETS</b>								
Cash and equivalents	\$ 27,170	\$ 4,179,624	\$ ...	\$ 4,206,794	\$ 1	\$ 3,703,847	\$ ...	\$ 3,703,848
Due from other governments	...	...	...	...	...	35,534	...	35,534
<b>TOTAL ASSETS</b>	<u>\$ 27,170</u>	<u>\$ 4,179,624</u>	<u>\$ ...</u>	<u>\$ 4,206,794</u>	<u>\$ 1</u>	<u>\$ 3,739,381</u>	<u>\$ ...</u>	<u>\$ 3,739,382</u>
<b>LIABILITIES</b>								
Accounts payable	\$ ...	\$ 9,890	\$ ...	\$ 9,890	\$ ...	\$ ...	\$ ...	\$ ...
Accrued salaries and related costs	...	1,280,884	...	1,280,884	...	1,064,790	...	1,064,790
<b>Total liabilities</b>	<u>...</u>	<u>1,290,774</u>	<u>...</u>	<u>1,290,774</u>	<u>...</u>	<u>1,064,790</u>	<u>...</u>	<u>1,064,790</u>
<b>FUND BALANCES</b>								
Reserved for encumbrances	...	...	...	...	...	...	...	...
Reserved-Renovation of Science Labs	...	33,249	...	33,249	...	37,095	...	37,095
Unreserved	27,170	2,855,601	...	2,882,771	1	2,637,496	...	2,637,497
<b>Total fund balances</b>	<u>27,170</u>	<u>2,888,850</u>	<u>...</u>	<u>2,916,020</u>	<u>1</u>	<u>2,674,591</u>	<u>...</u>	<u>2,674,592</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 27,170</u>	<u>\$ 4,179,624</u>	<u>\$ ...</u>	<u>\$ 4,206,794</u>	<u>\$ 1</u>	<u>\$ 3,739,381</u>	<u>\$ ...</u>	<u>\$ 3,739,382</u>

See Accompanying Report of Independent Auditor

**THE CHARTER SCHOOL OF WILMINGTON, INC.**

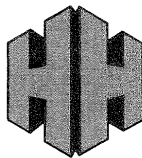
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES-GENERAL FUND  
Years Ended June 30, 2006 and 2005

	2006				2005			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
<b>REVENUES</b>								
Charges to school districts	\$ ...	\$ 2,562,410	\$ ...	\$ 2,562,410	\$ ...	\$ 2,312,494	\$ ...	\$ 2,312,494
State aid	4,978,519	...	...	4,978,519	4,547,253	55,083	...	4,602,336
Federal aid	...	...	55,652	55,652	...	...	38,764	38,764
Earnings on cash and equivalents	...	162,207	...	162,207	...	89,364	...	89,364
Contributions	...	22,614	...	22,614	...	12,978	...	12,978
Miscellaneous	...	23,380	...	23,380	...	2,532	...	2,532
<b>Total revenues</b>	<b>4,978,519</b>	<b>2,770,611</b>	<b>55,652</b>	<b>7,804,782</b>	<b>4,547,253</b>	<b>2,472,451</b>	<b>38,764</b>	<b>7,058,468</b>
<b>EXPENDITURES</b>								
Current:								
Salaries	2,659,351	1,612,075	...	4,271,426	2,583,424	1,381,413	...	3,964,837
Employment costs	1,334,683	113,366	...	1,448,049	1,181,996	155,245	...	1,337,241
Travel	9,243	12,331	...	21,574	3,289	8,089	...	11,378
Contracted services	62,871	31,668	55,652	150,191	46,578	36,930	38,764	122,272
Communications	18,457	6,193	...	24,650	29,415	7,017	...	36,432
Insurance	1,877	26,993	...	28,870	...	25,690	...	25,690
Transportation-buses	474,326	329,393	...	803,719	227,973	529,284	...	757,257
Land/Building/Facilities	30,950	189,311	...	220,261	27,703	228,190	...	255,893
Repairs and maintenance	5,647	13,980	...	19,627	10,499	12,655	...	23,154
Other contractual services	83,045	59,902	...	142,947	71,464	79,794	...	151,258
Supplies and materials	71,290	156,483	...	227,773	32,593	110,653	...	143,246
Operating supplies	117,788	...	...	117,788	224,303	...	...	224,303
Computer/Word Processing/Software	39,686	4,657	...	44,343	31,690	11,534	...	43,224
Capital outlay	42,136	...	...	42,136	12,078	...	...	12,078
<b>Total expenditures</b>	<b>4,951,350</b>	<b>2,556,352</b>	<b>55,652</b>	<b>7,563,354</b>	<b>4,483,005</b>	<b>2,586,494</b>	<b>38,764</b>	<b>7,108,263</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>27,169</b>	<b>214,259</b>	<b>...</b>	<b>241,428</b>	<b>64,248</b>	<b>(114,043)</b>	<b>...</b>	<b>(49,795)</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Interfund transfers	...	...	...	...	(68,482)	68,482	...	...
<b>NET CHANGE IN FUND BALANCES</b>	<b>27,169</b>	<b>214,259</b>	<b>...</b>	<b>241,428</b>	<b>(4,234)</b>	<b>(45,561)</b>	<b>...</b>	<b>(49,795)</b>
<b>FUND BALANCES</b>								
Beginning of year	<u>1</u>	<u>2,674,591</u>	<u>...</u>	<u>2,674,592</u>	<u>4,235</u>	<u>2,720,152</u>	<u>...</u>	<u>2,724,387</u>
End of year	<u>\$ 27,170</u>	<u>\$ 2,888,850</u>	<u>\$ ...</u>	<u>\$ 2,916,020</u>	<u>\$ 1</u>	<u>\$ 2,674,591</u>	<u>\$ ...</u>	<u>\$ 2,674,592</u>

See Accompanying Report of Independent Auditor

**Reports Required by  
Government Auditing Standards**





**HAGGERTY & HAGGERTY, P.A.**

James R. Zdimal, CPA†  
Vincent S. Barbone, CPA, CFE\*†

**CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS**

American Institute of CPA  
Pennsylvania Institute of CPA\*  
Delaware Society of CPA†  
Private Companies Practice Section

**Report of Independent Auditor  
on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of the Financial Statements  
Performed in Accordance with Government Auditing Standards**

To the School Board Members  
**The Charter School of Wilmington, Inc.**  
Wilmington, Delaware

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The Charter School of Wilmington, Inc. as of and for the year ended June 30, 2006, which collectively comprise The Charter School of Wilmington, Inc.'s basic financial statements and have issued our report thereon dated September 25, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

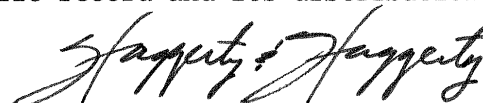
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered The Charter School of Wilmington, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted certain matters that we reported to management of The Charter School of Wilmington, Inc. in a separate letter dated September 25, 2006.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Charter School of Wilmington, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of The School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

  
Certified Public Accountants

September 25, 2006  
Wilmington, Delaware

**THE CHARTER SCHOOL OF WILMINGTON, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2006**

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**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of The Charter School of Wilmington, Inc.
2. No material reportable conditions were identified during the audit of the basic financial statements of The Charter School of Wilmington, Inc.
3. No instances of noncompliance to the basic financial statements of The Charter School of Wilmington, Inc. were disclosed during the audit.

**FINDINGS-FINANCIAL REPORTING**

None.

**FINDINGS-COMPLIANCE AND OTHER MATTERS**

None.